Central Intelligence Agency
Office of the Deputy Director for Intelligence

7 January 1985

NOTE TO: [redacted] STAT
National Security Council
[redacted] STAT

Per our conversation, attached is the information you requested on the impact of US sanctions against Nicaragua and Cuba. If we can be of further help, just call.

Robert M. Gates
Deputy Director for Intelligence

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FROM Robert M. Gates
Deputy Director for Intelligence [redacted] STAT

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7 January 1986

Impact of US Sanctions Against Nicaragua and Cuba

Economic sanctions not only send a strong political message, but can also have a significant impact on target countries by raising the costs of running an economy and disrupting normal business and government relations. The greatest impact typically occurs in the short run--the first 6 to 12 months. This is a period in which trade is disrupted, financial flows are altered and regimes are forced to deal with dislocations throughout the economy. In general, countries already subject to economic problems tend to be more vulnerable to the impact of economic sanctions. This is because the disruptions that occurred are only magnified against a poor economic background.

The impact of economic sanctions can be seen by looking at both Nicaragua and Cuba--countries against which the US has taken actions in the past. In looking at the effects it is important to separate direct impacts, indirect difficulties that are created, and the longer term cost to supporting regimes.

Nicaragua

Direct Effects. US sanctions against Managua caused disruptions to the local economy not only by disrupting exports and imports but also by spreading local managerial talent even thinner.

In the immediate aftermath of the US decision to introduce economic sanctions, Managua rushed to try to offset, or at least reduce, the direct effects of the US measures:

-- The Sandinistas made moves to begin selling bananas to Belgium, a clear attempt to divert the vulnerable banana harvest from traditional US markets.

-- The Nicaraguans began setting up the means to purchase US equipment and spare parts from elsewhere in Central America and Europe.

-- Managua quickly started to study how it could export goods to the United States through legitimate businesses and through front companies.

-- Managua stepped up efforts to find alternates for US made machinery--a process complicated by the regime's chronic shortage of dollars.

Indirect Effects. While Nicaragua's economic malaise cannot be attributed solely to US economic sanctions, they nevertheless are at least one factor in a downward spiral which has occurred over the past year.

-- Inflation in Nicaragua was driven up to roughly 300 percent during 1985, compared to 35 percent in 1984.

-- According to the most recent trade statistics, Nicaraguan exports world wide fell by at least 15 percent last year.

-- Judging from the recent record of industrial production and the like, Nicaragua's gross national product probably fell roughly 7 percent last year, with further declines likely this year.

Longer Term Costs for the Soviets. In dealing with the impact of the US trade embargo, Managua quickly turned to the Soviets to help bail them out.

-- After sanctions were announced, the Soviets substantially increased economic aid and Managua publicly announced Moscow would meet about 80 percent of Managua's petroleum needs in 1985.

-- For 1986, the Soviets and other Bloc countries announced during a CEMA meeting in Managua in October that they would boost economic aid another 50 percent.

-- In addition, Moscow agreed during the October meeting to pay premium prices for imports from Nicaragua and to further postpone most debt service obligations.

Net Impact. US sanctions and Nicaragua's poor economic state do not threaten to bring down the economy. They do, however, make things more difficult for the Sandinista regime by not only reducing resources but also by providing a drain on Managua's scarce managerial talent. Despite these pressures, Managua's most likely reaction will be to continue with what President Ortega identified as "survival economy" measures--further cuts in the non-military budget, more consumer sacrifices and greater controls in the private sector.

Cuba

The US decided to impose economic sanctions against Cuba in mid-1960 following the Castro regime's establishment of full diplomatic relations with the USSR. In early 1962 the Kennedy administration declared a total embargo against Cuba.

Direct Impact of US Embargo. The US actions have imposed substantial continuing costs on the Cuban economy over the years. The embargo has:

-- Halted trade with the United States, Cuba's nearby natural trading partner with its huge market for sugar and its unsurpassed ability to supply machiner, spare parts, and technology.

-- Cut off Cuba from all US and some international sources of credit, although it has not prevented the Castro regime from incurring hard currency debts totaling $3.5 billion.

-- Multiplied shipping times and costs, cargoes often moving 6,000 to 9,000 miles compared with less than 3,000 miles in the past.

-- Dulled and complicated prospects for foreign investment in Cuba's modernization program because of the loss of the biggest potential market for the expanded output.

-- Deepened Cuba's dependence on the Soviet economic bloc, worsening such problems as late deliveries of imports, pile-ups of unfinished construction projects, and lengthy consumer queues.

These effects only intensified internal problems caused by the impact of periodic bad weather on the sugar crop and poor domestic economic problems.

Indirect Impact. Cuba's vulnerability to US economic sanctions will be shielded as long as Cuba can count on the USSR to support the economy at an acceptable level of performance.

-- A weak world sugar market, bad sugar harvests in recent years, and a shift from a net inflow to net outflow of Western capital have forced Cuba to reduce hard currency imports sharply.

-- These reductions have been more than made up by increased imports from the USSR which provides or finances some 70 percent of Cuba's total trade.

Soviet economic aid--comprising trade subsidies and development assistance--to Cuba has amounted to some $40 billion since the first bilateral economic agreement was signed in 1960.

-- Moscow has pumped over $4 to $5 billion in economic aid into Cuba each of the last five years.

-- This is far more extensive than Soviet assistance to any other Third World country.

Longer Term Costs to Soviets. Although Moscow's willingness to support the Cuban economy has limited Cuban vulnerability to US economic sanctions, it has greatly increased Cuba's dependence on the USSR and the cost to Moscow of supporting Cuba.

-- The very closeness of the Cuban-Soviet economic relationship makes both sides, especially the Cubans, extremely sensitive to the reactions of the other.

Net Impact. Some of the original impact of the embargo has been eroding:

-- Foreign trade relations have become restabilized, with more than four-fifths of Cuban trade now being conducted with Soviet bloc countries.

-- Western Europe, Japan, and the Soviet Bloc countries have become increasingly effective suppliers of modern industrial equipment to Cuba.

-- Most other Latin American states have resumed political and economic relations after having joined the embargo for a decade.

-- Cuban economic administrators have gained experience and confidence.

Even so as Cuba moves through the 1980s overextended in commitments, loaded with debt, and saddled with an inefficient economic system, the US embargo will continue to narrow Havana's options, raise costs, and delay modernization.